

**REPORT OF THE AUDIT OF THE
MADISON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2005

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CONTENTS

	<u>PAGE</u>
CONTENTS.....	I
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
INDEPENDENT AUDITOR’S REPORT	8
MADISON COUNTY OFFICIALS	10
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	11
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	13
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	17
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS ..	19
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	21
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	23
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	25
NOTES TO FINANCIAL STATEMENTS	27
BUDGETARY COMPARISON SCHEDULES.....	42
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	47
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	48
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	50
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	53
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	55
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	56
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	58
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	61

APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



KENT CLARK - MADISON COUNTY JUDGE/EXECUTIVE
COURTHOUSE - 101 WEST MAIN STREET
RICHMOND, KENTUCKY 40475

Management's Discussion and Analysis June 30, 2005

The financial management of Madison County, Kentucky offers readers of Madison County's financial statements this narrative overview and analysis of the financial activities of Madison County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Madison County's governmental activities had net assets of \$20,487,416 as of June 30, 2005. Total debt principal as of June 30, 2005 was \$12,640,018 with \$260,179 due within one year.
- The governmental activities total net assets increased by \$1,627,773 from the prior year. This increase is primarily due to increases in capital assets.

Overview of Financial Statements

This management discussion and analysis is intended to serve as an introduction to Madison County's basic financial statements. Madison County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Madison County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Madison County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Madison County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for good and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Madison County's governmental activities include general government, protection to persons and property, health and sanitation, social services, recreation and culture, roads, debt service, capital projects, and administration. Madison County has one business type activity –Jail Commissary.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Madison County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Madison County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Madison County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Madison County maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- CSEPP Fund
- Jail Fund

Non-Major Fund:

- LGEA Fund
- E-911 Fund

Madison County adopts an annual appropriated budget. A budgetary comparison statement has been provided for all funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The propriety fund financial statements provide separate information for the Jail Commissary Fund.

Notes to the Financial Statement. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Madison County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Table 1

Madison County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	7,145,129	10,608,721	50,185	75,616	7,195,314	10,683,117
Capital assets	19,108,639	22,518,713	0	0	19,108,639	22,518,713
Total Assets	26,253,768	33,127,434	50,185	75,616	26,303,953	33,201,830
Liabilities						
Current and other liabilities	218,537	260,179	0	0	218,537	260,179
Long-term Liabilities	7,175,588	12,379,839	0	0	7,175,588	12,379,839
Total Liabilities	7,394,125	12,640,018	0	0	7,394,125	12,640,018
Net Assets						
Invested in capital assets, net of related debt	11,714,514	9,878,695	0	0	11,714,514	9,878,695
Restricted	0	0	0	0	0	0
Unrestricted	7,145,129	10,608,721	50,185	75,616	7,195,314	10,683,117
Total Net Assets	18,859,643	20,487,416	50,185	75,616	18,909,828	20,561,812

Financial Analysis of the County's Funds. As we noted earlier, Madison County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Madison County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balances of Madison County's governmental funds were \$10,608,721.

Madison County
Management's Discussion and Analysis
June 30, 2005
(Continued)

The County has four (4) major governmental funds and two (2) non-major funds.

Major Funds:

- General Fund
- Road and Bridge Fund
- CSEPP Fund
- Jail Fund

Non-Major Fund:

- LGEA Fund
- E-911 Fund

1. The General Fund is the chief operating fund of Madison County. At the end of June 30, 2005 fiscal year, the General Fund had a total fund balance of \$9,636,112. The County received \$5,139,908 in real and personal property, motor vehicle, occupational, and other taxes for approximately 64% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 36% of revenues.
2. The Road Fund is the fund related to County road construction and maintenance. The Road Fund had a total fund balance of \$85,813 as of June 30, 2005. The county received \$1,546,835 in County Road Aid from the state for approximately 86% of the county's road revenues. The remaining 14% of road revenues consist of various other state payments and miscellaneous revenues. The fiscal year 2005 expenditures for the Road Fund were \$2,581,680, of which \$933,403 was spent on asphalt and rock. The addition of a concrete construction crew was added this year to significantly lower expenses associated with construction of bridges, retaining walls, etc.
3. The CSEPP Fund (Chemical Stockpile Emergency Preparedness Program) is a federal funded program used for Madison County to plan and respond to any accidents associated with the storage and disposal of the chemical weapons located at the Bluegrass Army Depot. The fund had a balance of \$258,467 as of June 30, 2005. A portion of these funds are collected and used to maintain the current 800 mega-hertz radios used by all emergency personnel throughout the county.
4. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance of \$33,578 as of June 30, 2005. The Jail Fund received \$1,442,149, primarily for housing prisoners and for prisoner allotment. The General Fund only contributed \$225,100 to jail operations, even though \$375,000 had been budgeted for transfer. This was a decrease of \$48,900 in General Fund contributions from fiscal year 2004. The high population of state inmates and efficient management of the detention center allowed for the decrease in funding from the General Fund.
5. The Local Government Economic Assistance Fund had an unreserved fund balance of \$558,069 as of June 30, 2005. Mineral Severance Tax, Coal Impact Tax, and interest earned provide the total revenues for the LGEA Fund, which totaled \$181,310. These funds are restricted in use. Surplus from the prior year totaled \$598,787. Expenditures for this year totaled \$222,028 for the purchase of asphalt.

Madison County
Management's Discussion and Analysis
June 30, 2005
(Continued)

6. The E-911 Fund is used to operate the 911 dispatch center located at the Emergency Operations Center. This fund had a balance of \$36,682 as of June 30, 2005. Revenue for this fund is generated from 911 tax from telecommunications companies. With the rising cost of communications equipment, the counties 911 rate of .83 cents, the lowest in the state, does not generate enough revenue to offset the cost of services to the community. Therefore, the General Fund must transfer the difference which amounted to \$50,000 this year.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements. As of the end of June 2005 fiscal year, the ending fund balance of the County's proprietary fund was \$75,616. Madison County has one (1) proprietary fund.

Proprietary Fund:

- Jail Commissary

1. The Jail Commissary Fund had a balance of \$75,616, which amounts are to be used for inmate purposes.

Budgetary Highlights. Madison County's budget was amended during the fiscal year 2005 increasing the budgeted amount by \$1,944,474. Budget amendments were made to include surplus revenues and expenditures for insurance, retirement of Extension office debt, bond sale revenues for the construction of the new courthouse annex, state road maintenance agreement, and state prisoner reimbursements, as opposed to projected collections.

Capital Assets and Debt Administration.

Capital Assets. Madison County's investment in capital assets for its government and business type activities as of June 30, 2005, amount to \$22,518,713 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, improvements to land, equipment, vehicles, furniture and office equipment, and current infrastructure additions. Madison County has elected to report infrastructure assets per GASB 34 provisions.

As of July 1st, 2004 the Madison County Fiscal Court amended the Capital Assets Threshold to include only assets valued at \$10,000 dollars or above.

Major capital asset events during the 2005 fiscal year included road improvements and resurfacing, vehicle and equipment purchases, and construction in progress of the new courthouse annex.

Additional information of the County's capital assets can be found in Note 4 of this report.

Table 3

Madison County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Infrastructure	6,582,295	7,730,638			6,582,295	7,730,638
Land	3,107,685	3,279,548			3,107,685	3,279,548
Buildings & Improvements	7,526,774	7,439,631			7,526,774	7,439,631
Equipment	524,837	814,193			524,837	814,193
Vehicles	1,101,997	1,185,544			1,101,997	1,185,544
Construction in progress	265,050	2,069,159			265,050	2,069,159
Total Net Capital Assets	19,108,638	22,518,713			19,108,638	22,518,713

Long-Term Debt. At the end of 2005 fiscal year, Madison County had total long-term debt principal outstanding of \$12,640,018. The amount of this debt due within the next year is \$260,179. This debt is for the building construction, road and fire equipment, land purchases, and building renovations. This debt is described in Notes 3 and 5 of the notes to the financial statement.

Requests for Information. This financial report is designed to provide a general overview of Madison County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Madison County Treasurer, 101 West Main Street, KY 40475.


Glenna Baker, Madison County Treasurer

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Madison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Madison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

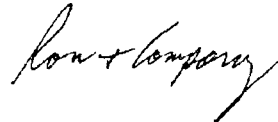
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court
(Continued)

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2005 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted



Ross & Company, PLLC

Audit fieldwork completed-
December 22, 2005

MADISON COUNTY OFFICIALS
Fiscal Year Ended June 30, 2005

Fiscal Court Members:

Kent Clark	County Judge/Executive
Larry Combs	Magistrate
Billy Ray Hughes	Magistrate
Roger D. Barger	Magistrate
William H. Tudor	Magistrate

Other Elected Officials:

Marc Robbins	County Attorney
Ron Devere	Jailer
William E. Gabbard	County Clerk
Linda Cates	Circuit Court Clerk
Cecil Cochran	Sheriff
Stephen M. Smith	Property Valuation Administrator
James A. Cornelison	Coroner

Appointed Personnel:

Glenna Baker	County Treasurer
Shirl Gross	Finance Officer/ Occupational Tax Collector

MADISON COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2005

MADISON COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 6,839,087	\$ 75,616	\$ 6,914,703
Investments	3,769,634	-	3,769,634
Total Current Assets	10,608,721	75,616	10,684,337
Noncurrent Assets:			
Capital Assets-Net of Accumulated Depreciation			
Land	3,279,548	-	3,279,548
Construction in Progress	2,069,159	-	2,069,159
Buildings and Improvements	7,439,631	-	7,439,631
Other Equipment	814,193	-	814,193
Vehicles and Equipment	1,185,544	-	1,185,544
Infrastructure Assets-Net of			
Depreciation	7,730,638	-	7,730,638
Total Noncurrent Assets	22,518,713	-	22,518,713
Total Assets	33,127,434	75,616	33,203,050
LIABILITIES			
Current Liabilities:			
Financing Obligations	225,179	-	225,179
Bonds Payable	35,000	-	35,000
Total Current Liabilities	260,179	-	260,179
Noncurrent Liabilities:			
Financing Obligations	1,979,839	-	
Bonds Payable	10,400,000	-	10,400,000
Total Noncurrent Liabilities	12,379,839	-	12,379,839
Total Liabilities	12,640,018	-	12,640,018
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,878,695	-	9,878,695
Unrestricted	10,608,721	75,616	10,684,337
Total Net Assets	\$ 20,487,416	\$ 75,616	\$ 20,563,032

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MADISON COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2005

Functions/Programs Reporting Entity Primary Government:	Program Revenue Received				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government	\$ 1,474,140	\$	\$ 846,327		\$ (627,813)	\$	\$ (627,813)
Protection to Persons and Property	4,966,491	1,037,900	2,500,113		(1,428,478)		(1,428,478)
General Health and Sanitation	489,831	25,163			(464,668)		(464,668)
Social Services	147,253				(147,253)		(147,253)
Recreation and Culture	670,826				(670,826)		(670,826)
Roads	1,291,141		1,933,874		642,733		642,733
Debt Service	611,698				(611,698)		(611,698)
Capital Projects	2,465,637				(2,465,637)		(2,465,637)
Total Government Activities	12,117,017	1,063,063	5,280,314		(5,773,640)		(5,773,640)
Business-type Activities:							
Jail Canteen	295,738	317,812			22,074		22,074
Total Business-type Activities	295,738	317,812			22,074		22,074
Total Primary Government	12,412,755	1,380,875	5,280,314		(5,773,640)	22,074	(5,751,566)
General Revenues:							
Taxes:							
Real Property Taxes					1,993,906		1,993,906
Personal Property Taxes					180,322		180,322
Motor Vehicle Tax					382,207		382,207
Occupational Taxes					1,940,117		-
Others Taxes					956,952		956,952
Excess Fees					558,729		558,729
Licenses and Permits					314,952		314,952
Unrestricted Investment Earnings					305,595		305,595
Other Revenue					768,633		768,633
Total General Revenues					7,401,413	0	7,401,413
Changes in Net Assets					1,627,773	22,074	1,649,847
Net Assets-Beginning (Restated)					18,859,643	53,542	18,913,185
Net Assets-Ending					\$ 20,487,416	\$ 75,616	\$ 20,563,032

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2005

MADISON COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 5,866,478	\$ 85,813	\$ 33,578	\$ 258,467	\$ 594,751	\$ 6,839,087
Investments	<u>3,769,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,769,634</u>
Total Assets	<u>\$ 9,636,112</u>	<u>\$ 85,813</u>	<u>\$ 33,578</u>	<u>\$ 258,467</u>	<u>\$ 594,751</u>	<u>\$10,608,721</u>
FUND BALANCES						
Unreserved:						
General Fund	\$ 9,636,112	\$ -	\$ -	\$ -	\$ -	\$ 9,636,112
Special Revenue Funds	<u>-</u>	<u>85,813</u>	<u>33,578</u>	<u>258,467</u>	<u>594,751</u>	<u>972,609</u>
Total Fund Balances	<u>\$ 9,636,112</u>	<u>\$ 85,813</u>	<u>\$ 33,578</u>	<u>\$ 258,467</u>	<u>\$ 594,751</u>	<u>\$10,608,721</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$10,608,721
Amounts reported for Government Activities in the Statement	
Of Net Assets are difference because:	
Capital Assets Used in Government Activities are not Financial	
Resources and therefore are not reported in the funds.	27,681,475
Depreciation	(5,162,762)
Long-term debt is not due and payable in the current period and,	
therefore, is not reported in the funds.	
Financing Obligations	(2,205,018)
Bonded Debt	<u>(10,435,000)</u>
Net Assets Of Government Activities	<u>\$20,487,416</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2005

MADISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road And Bridge Fund	Jail Fund	CSEPP Fund	Non- Major Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 5,139,908	\$ -	\$ -	\$ -	\$ 204,118	\$ 5,344,026
Excess Fees	558,728	-	-	-	-	558,728
Licenses and Permits	314,952	-	-	-	-	314,952
Intergovernmental	948,409	1,756,609	1,186,030	1,961,225	286,551	6,138,824
Charges for Services	25,163	-	155,044	43,480	10,000	233,687
Miscellaneous	704,507	32,470	100,936	11,065	-	848,978
Interest	299,469	1,105	139	457	4,425	305,595
Total Revenue	<u>7,991,136</u>	<u>1,790,184</u>	<u>1,442,149</u>	<u>2,016,227</u>	<u>505,094</u>	<u>13,744,790</u>
EXPENDITURES						
General Government	1,605,706	-	-	-	-	1,605,706
Protection to Persons and Property	1,511,474	-	1,459,642	1,785,306	363,079	5,119,501
General Health and Sanitation	483,799	-	-	-	-	483,799
Social Services	147,253	-	-	-	-	147,253
Recreation and Culture	703,887	-	-	-	-	703,887
Roads	13,000	2,360,449	-	-	222,028	2,595,477
Debt Service:						
Principal	254,107	-	-	-	-	254,107
Interest	611,698	-	-	-	-	611,698
Capital Projects	2,465,637	-	-	-	-	2,465,637
Administration	1,211,087	221,231	202,986	93,391	65,438	1,794,133
Total Expenditures	<u>9,007,648</u>	<u>2,581,680</u>	<u>1,662,628</u>	<u>1,878,697</u>	<u>650,545</u>	<u>15,781,198</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(1,016,512)</u>	<u>(791,496)</u>	<u>(220,479)</u>	<u>137,530</u>	<u>(145,451)</u>	<u>(2,036,408)</u>
Other Financing Sources (Uses)						
Bond Proceeds	5,500,000	-	-	-	-	5,500,000
Transfers From Other Funds	100,000	846,000	225,100	-	50,000	1,221,100
Transfer To Other Funds	(1,121,100)	-	-	(100,000)	-	(1,221,100)
Total Other Financing Sources (Uses)	<u>4,478,900</u>	<u>846,000</u>	<u>225,100</u>	<u>(100,000)</u>	<u>50,000</u>	<u>5,500,000</u>
Net Change in Fund Balances	3,462,388	54,504	4,621	37,530	(95,451)	3,463,592
Fund Balances-Beginning (Restated)	6,173,724	31,309	28,957	220,937	690,202	7,145,129
Fund Balances-Ending	<u>\$ 9,636,112</u>	<u>\$ 85,813</u>	<u>\$ 33,578</u>	<u>\$ 258,467</u>	<u>\$ 594,751</u>	<u>\$ 10,608,721</u>

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

MADISON COUNTY
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 3,463,592
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,410,295
Depreciation Expense	(1,000,221)
Bond Proceeds	(5,500,000)
Lease principal payments are expended in the Governmental Funds as a use of current year financial resources	
Finance Obligations - principal payments	249,107
General Obligation Bonds- principal payments	<u>5,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,627,773</u></u>
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The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2005

**MADISON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND -
MODIFIED CASH BASIS**

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 75,616
Total Current Assets	<u>75,616</u>
Net Assets	
Unrestricted	<u>75,616</u>
Total Net Assets	<u><u>\$ 75,616</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MADISON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenue	
Canteen Receipts	\$ 317,812
Total Operating Revenue	<u>317,812</u>
Operating Expenses	
Cost of Sales	257,755
Educational and Recreational	17,596
Inmate Medical	10,429
Personnel Cost	9,958
Total Operating Expenses	<u>295,738</u>
Operating Income (Loss)	<u>22,074</u>
Total Net Assets - Beginning (Restated)	53,542
Total Net Assets- Ending	<u><u>\$ 75,616</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
For The Year Ended June 30, 2005

**MADISON COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND - MODIFIED CASH BASIS**

For The Fiscal Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 317,812
Cost of Sales	(257,755)
Educational and Recreational	(17,596)
Inmate Medical Payments	(10,429)
Personnel Cost	(9,958)
Net Cash Provided By Operating Activities	<u>22,074</u>
Net Increase in (Decrease) in Cash and Cash Equivalent	22,074
Cash and Cash Equivalent-July 1, 2004 (Restated)	<u>53,542</u>
Cash and Cash Equivalents-June 30, 2005	<u><u>\$ 75,616</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	28
NOTE 2.	DEPOSITS AND INVESTMENTS	33
NOTE 3.	OPERATING LEASES	35
NOTE 4.	CAPITAL ASSETS	37
NOTE 5.	LONG-TERM DEBT.....	38
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	40
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	40
NOTE 8.	INSURANCE	41
NOTE 9.	PRIOR PERIOD ADJUSTMENTS.....	41

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Madison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units, which merit consideration as part of the reporting entity.

C. Madison County Constitutional Elected Officials Not Part Of Madison County

The Kentucky constitution provides for election of the above officials from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Madison County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Jailer
- County Sheriff
- Property Valuation Administrator

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund- This fund is to be used to improve Madison County's capacity to plan for and respond to accidents associated with storage and ultimate disposal of chemical warfare materials located at the Bluegrass Army Depot. The U.S. Congress appropriates funding for reimbursement of CSEPP expenditures. CSEPP funds may not be commingled with other funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and E-911 Fund.

Special Revenues Funds:

The Road and Bridge Fund, Jail Fund, CSEPP Fund, Local Government Economic Assistance Fund, and E-911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issues after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund-the canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from sales of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings	10,000	10-75
Building Improvements	10,000	10-75
Machinery and Equipment	10,000	3-25
Vehicles	10,000	3-5
Infrastructure	10,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Account Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. A formal budget is not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenditures made from this fund.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county’s deposits may not be returned. The county follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial risk. As of June 30, 2005, \$43,778 and \$63,038 of the county’s bank balance was exposed to custodial credit risk as follows:

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

- Unsecured and uncollateralized - \$43,778 as of May 3, 2005
- Unsecured and uncollateralized - \$63,038 as of June 20, 2005

B. Investments

As of June 30, 2005, the County had the following investments:

<u>Types of Investments</u>	<u>Maturity Date</u>	<u>Fair Value (Cost)</u>	<u>Rating</u>	<u>Concentration Percentage</u>
Energy New Orleans Inc Insured Quarterly First Mortgage	9/1/2024	\$ 350,000	AAA/Aaa	9.28%
Federal Home Loan Mortgage Corp Medium Term Note	8/24/2021-8/15/2028	1,204,489	AAA/Aaa	31.95%
Federal National Mortgage Association Medium Term Note	3/6/2023-3/4/2024	1,320,500	AAA/Aaa	35.03%
Federal Home Loan Banks Consolidated Bonds	7/10/2023	489,605	Aaa	12.99%
First Horizon MTG Passthru TR Series 2002-4 Class 1-A-5	9/25/2034	155,040		4.11%
Consumer Energy Company Insured Quarterly Notes	4/15/2035	<u>250,000</u>	AAA/Aaa	6.63%
Totals		<u><u>\$ 3,769,634</u></u>		

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk. KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing in no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, U.S. government obligations or obligations guaranteed by the U.S. government are not subject to investment credit risk or concentration of credit risk. See the above chart for credit ratings for each individual investment type.

Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. See the above chart for investments that exceed five percent or more of the total investments for the County.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2005, the County's investments were not exposed to custodial credit risk.

Note 3. Financing Obligations

The fiscal court entered into various lease agreements: one with KACo Leasing Trust for the construction of a fire station and two additional agreements with KADD Financing Trust, one for the construction/renovation of a family court building and another for the purchase of fire and road equipment. In addition to these leases the fiscal court had previously entered into an agreement with KACo Leasing Trust for the construction of the Madison County Extension Building. All liabilities related to this lease were satisfied in fiscal year 2005. The total expense related to these leases was \$345,659 (\$249,107 principal and \$96,552 interest) for the fiscal year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Financing Obligations (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2006	\$ 276,505
2007	269,723
2008	267,862
2009	270,627
2010	160,547
2011-2015	668,686
2016-2020	<u>232,815</u>
Total Minimum Lease Payments	\$ 2,146,765
Less: Amount Representing Interest	<u>496,748</u>
Present Value of Minimum Lease Payments	<u>\$ 1,650,017</u>

In addition to the operating leases described in the preceding paragraph the Madison County Fiscal Court entered into a 20-year leasing agreement with the KADD Financing Trust for the replacement of the HVAC system in the courthouse and related improvements and replacements. Principal payments are due annually by November 20. The principal outstanding as of June 30, 2005 was \$555,000. The schedule below sets forth Madison County's future principal and interest payments:

<u>Fiscal Year Ended June 30</u>	<u>Principal Payments</u>	<u>Scheduled Interest and Bank Charges</u>	<u>Total Payment</u>	<u>Less AOC Rental Amount*</u>	<u>Net Due From County</u>
2006	\$ 30,000	\$ 29,482	\$ 59,482	\$ (23,696)	\$ 35,786
2007	30,000	27,968	57,968	(23,696)	34,272
2008	35,000	26,326	61,326	(23,696)	37,630
2009	35,000	24,559	59,559	(23,696)	35,863
2010	40,000	22,615	62,615	(23,696)	38,919
2011-2015	220,000	79,719	299,719	(118,480)	181,239
2016-2018	<u>165,000</u>	<u>15,791</u>	<u>180,791</u>	<u>(59,240)</u>	<u>121,551</u>
Total	<u>\$555,000</u>	<u>\$ 226,460</u>	<u>\$781,460</u>	<u>\$ (296,200)</u>	<u>\$ 485,260</u>

* In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the cost of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 3,107,685	\$ 171,863	\$	\$ 3,279,548
Construction in Progress	265,050 (a)	1,804,109		2,069,159
Capital Assets Not Being Depreciated:	3,372,735	1,975,972		5,348,707
Capital Assets Being Depreciated:				
Buildings	9,200,519	86,314		9,286,833
Other Equipment	1,000,274 (b)	427,683		1,427,957
Vehicles and Road Equipment	1,753,377 (b)	252,130		2,005,507
Infrastructure	7,944,275	1,668,196		9,612,471
Capital Assets Being Depreciated	19,898,445	2,434,323		22,332,768
Less Accumulated Depreciation For:				
Building	(1,673,745)	(173,457)		(1,847,202)
Other Equipment	(475,437) (c)	(138,327)		(613,764)
Vehicles and Road Equipment	(651,380) (c)	(168,583)		(819,963)
Infrastructure	(1,361,979)	(519,854)		(1,881,833)
Total Accumulated Depreciation	(4,162,541)	(1,000,221)		(5,162,762)
Total Capital Assets Being Depreciated, Net	15,735,904	1,434,102		17,170,006
Government Activities Capital Assets, Net	\$ 19,108,639	\$ 3,410,074		\$ 22,518,713

- (a) Beginning balance of construction in progress was adjusted by \$2,836,847 due to prior year inclusion of construction on water and sewer lines that will revert to utility districts upon completion and will not be considered capital assets of the county.
- (b) Beginning balances were adjusted by \$25,463 and \$58,452 respectfully for other equipment and vehicle & road equipment due to the fiscal court increasing the threshold levels for items to be included on the county's capital assets schedule.
- (c) Beginning balances for accumulated depreciation for other equipment and vehicle & road equipment were adjusted by \$11,493 and \$25,857 respectfully due to assets removed from the capital asset schedule as explained in footnote (b) above.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 109,899
Protection to Persons and Property	260,034
General Health and Sanitation	6,032
Recreation and Culture	17,266
Roads, Including Depreciation of General Infrastructure Assets	<u>615,990</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,000,221</u>

Note 5. Long Term Debt

A. General Obligation Bonds, Series 2001

Bonds outstanding of the General /Fund were \$3,300,00 of General Obligation Funding and Improvement Bonds issued on August 1, 2001, with interest rates of 4.15% through 4.875% payable semiannually. The total issue of bonds was \$3,320,000 with principal paid April 1. The bonds fully amortize by April 1, 2021. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 160,658	\$ 5,000
2007	160,450	5,000
2008	160,242	5,000
2009	160,035	5,000
2010	159,828	5,000
2011-2015	795,808	25,000
2016-2020	789,750	25,000
2021	<u>157,219</u>	<u>3,225,000</u>
Total	<u>\$ 2,543,990</u>	<u>\$ 3,300,000</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

B. General Obligation Bonds, Series 2004

Bonds outstanding of the General Fund were \$1,635,000 of General Obligation Public Project Bonds issued on April 1, 2004, with interest rates of 1.50% through 4.60% payable semiannually. The total issue of the bonds was \$1,635,000 with principal paid annually March 1. The bonds fully amortize by March 1, 2034. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 67,337	\$ 30,000
2007	66,887	35,000
2008	66,258	35,000
2009	65,505	35,000
2010	64,648	35,000
2011-2015	306,193	195,000
2016-2020	266,753	235,000
2021-2025	210,787	295,000
2026-2030	137,785	370,000
2031-2034	43,700	370,000
Total	<u>\$ 1,295,853</u>	<u>\$ 1,635,000</u>

C. General Obligation Improvement Bonds, Series 2004B

On October 20, 2004, the Madison County Fiscal Court issued \$5,500,000 of General Obligation Improvement Bonds with interest rates of 2.00% through 4.65% payable annually. The proceeds of the bonds were to be used for the construction of a new courthouse annex. The bonds fully amortize by October 1, 2036. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 228,768	\$ -
2007	227,767	100,000
2008	225,718	100,000
2009	223,407	105,000
2010	220,663	110,000
2011-2015	1,049,556	600,000
2016-2020	928,915	725,000
2021-2025	763,726	890,000
2026-2030	539,062	1,125,000
2031-2035	246,385	1,420,000
2036	7,556	325,000
Total	<u>\$ 4,661,523</u>	<u>\$ 5,500,000</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Financing Obligations	\$ 2,454,125	\$	\$ 249,107	\$ 2,205,018	\$ 225,179
General Obligation Bonds	4,940,000	5,500,000	5,000	10,435,000	35,000
Total Governmental Activities- Long-Term Liabilities	\$ 7,394,125	\$5,500,000	\$ 254,107	\$ 12,640,018	\$ 260,179

Note 6. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$96,552 in interest on financing obligations and \$515,146 in interest on bonds.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2005, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The General Fund beginning fund balance of \$6,173,724 includes prior year adjustments of \$7,984 for prior year voided checks. Beginning net assets of governmental activities has been restated for capital asset adjustment. The amounts and reasons are given in the Capital Asset Schedule-Note 4. Additionally, beginning net assets of business-type activities has been restated by \$3,357.

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amount, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,915,100	\$ 4,915,100	\$ 5,139,908	\$ 224,808
Excess Fees	535,000	535,000	558,728	23,728
Licenses and Permits	253,500	253,500	314,952	61,452
Intergovernmental Revenues	2,025,291	2,044,372	948,409	(1,095,963)
Charges for Services	33,000	33,000	25,163	(7,837)
Miscellaneous	816,320	827,901	704,507	(123,394)
Interest	300,000	300,000	299,469	(531)
Total Revenues	8,878,211	8,908,873	7,991,136	(917,737)
EXPENDITURES				
General Government	1,455,620	1,642,479	1,605,706	36,773
Protection to Persons and Property	1,643,850	1,605,172	1,511,474	93,698
General Health and Sanitation	500,862	510,108	483,799	26,309
Social Services	178,089	184,457	147,253	37,204
Recreation and Culture	421,115	749,741	703,887	45,854
Roads	15,000	13,029	13,000	29
Debt Service:				
Principal	213,842	213,842	254,107	(40,265)
Interest	406,702	420,855	611,698	(190,843)
Capital Projects	5,939,000	6,842,706	2,465,637	4,377,069
Administration	1,581,688	1,249,366	1,211,087	38,279
Total Expenditures	12,355,768	13,431,755	9,007,648	4,424,107
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(3,477,557)	(4,522,882)	(1,016,512)	3,506,370
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	4,000,000	5,315,224	5,500,000	184,776
Transfers From Other Funds			100,000	100,000
Transfers To Other Fund	(1,222,443)	(1,222,443)	(1,121,100)	101,343
Total Other Financing Sources and (Uses)	2,777,557	4,092,781	4,478,900	386,119
Net Changes in Fund Balances	(700,000)	(430,101)	3,462,388	3,892,489
Fund Balance-Beginning	700,000	700,000	6,173,724	5,473,724
Funding Balance-Ending	\$	\$ 269,899	\$ 9,636,112	\$ 9,366,213

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

ROAD AND BRIDGE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,328,775	\$ 1,852,363	\$ 1,756,609	\$ (95,754)
Miscellaneous	65,000	65,000	32,470	(32,530)
Interest	1,000	1,000	1,105	105
Total Revenues	1,394,775	1,918,363	1,790,184	(128,179)
EXPENDITURES				
Roads	2,022,149	2,476,543	2,360,449	116,094
Administration	246,044	525,137	221,231	303,906
Total Expenditures	2,268,193	3,001,680	2,581,680	420,000
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(873,418)	(1,083,317)	(791,496)	291,821
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	823,418	823,418	846,000	22,582
Total Other Financing Sources and (Uses)	823,418	823,418	846,000	22,582
Net Changes in Fund Balances	(50,000)	(259,899)	54,504	314,403
Fund Balances Beginning	50,000	50,000	31,309	(18,691)
Fund Balances-Ending	\$ -	\$ (209,899)	\$ 85,813	\$ 295,712

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 938,500	\$ 1,013,500	\$ 1,186,030	\$ 172,530
Charges for Services	150,000	150,000	155,044	5,044
Miscellaneous	85,000	85,000	100,936	15,936
Interest	500	500	139	(361)
Total Revenues	1,174,000	1,249,000	1,442,149	193,149
EXPENDITURES				
Protection to Person and Property	1,341,799	1,461,714	1,459,642	(2,072)
Administration	232,201	222,286	202,986	(19,300)
Total Expenditures	1,574,000	1,684,000	1,662,628	(21,372)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(400,000)	(435,000)	(220,479)	214,521
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	375,000	375,000	225,100	(149,900)
Total Other Financing Sources (Uses)	375,000	375,000	225,100	(149,900)
Net Changes in Fund Balances	(25,000)	(60,000)	4,621	64,621
Fund Balances-Beginning	25,000	25,000	28,957	3,957
Fund Balance-Ending	\$	\$ (35,000)	\$ 33,578	\$ 68,578

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

CSEEP FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 2,584,705	\$ 2,584,705	\$ 1,961,225	\$ (623,480)
Charge for Services	39,120	39,120	43,480	4,360
Miscellaneous	50,000	50,000	11,065	(38,935)
Interest	500	500	457	(43)
Total Revenues	2,674,325	2,674,325	2,016,227	(658,098)
EXPENDITURES				
Protection to Persons and Property	2,491,729	2,507,190	1,785,306	721,884
Administration	232,596	217,135	93,391	123,744
Total Expenditures	2,724,325	2,724,325	1,878,697	845,628
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(50,000)	137,530	187,530
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)			(100,000)	(100,000)
Net Changes in Fund Balances	(50,000)	(50,000)	37,530	87,530
Fund Balances Beginning	50,000	50,000	220,937	170,937
Fund Balances-Ending	\$	\$	\$ 258,467	\$ 258,467

MADISON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MADISON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

MADISON COUNTY
COMBINING BALANCE SHEET-
NON-MAJOR GOVERNMENTAL FUNDS-CASH BASIS
Other Supplementary Information

June 30, 2005

	LGEA Fund	E-911 Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	<u>\$ 558,069</u>	<u>\$ 36,682</u>	<u>\$ 594,751</u>
 FUND BALANCES			
Unreserved:			
Special Revenue Funds	<u>558,069</u>	<u>36,682</u>	<u>594,751</u>
 Total Fund Balances	<u><u>\$ 558,069</u></u>	<u><u>\$ 36,682</u></u>	<u><u>\$ 594,751</u></u>

MADISON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

MADISON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	E-911 Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$ -	\$ 204,118	\$ 204,118
Intergovernmental	177,264	109,287	286,551
Charges For Services	-	10,000	10,000
Interest	4,046	379	4,425
Total Revenue	<u>181,310</u>	<u>323,784</u>	<u>505,094</u>
EXPENDITURES			
Protection to Persons and Property	-	363,079	363,079
Roads	222,028	-	222,028
Administration	-	65,438	65,438
Total Expenditures	<u>222,028</u>	<u>428,517</u>	<u>650,545</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(40,718)</u>	<u>(104,733)</u>	<u>(145,451)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds	-	50,000	50,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Net Change in Fund Balances	(40,718)	(54,733)	(95,451)
Fund Balances-Beginning	598,787	91,415	690,202
Fund Balances-Ending	<u>\$ 558,069</u>	<u>\$ 36,682</u>	<u>\$ 594,751</u>

**MADISON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2005

**MADISON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madison County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Madison County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report of compliance for the audit of the major federal awards programs for Madison County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Madison County reported in Part C of this schedule.
7. The programs tested as major programs were: Chemical Stockpile Emergency Preparedness Program (CSEPP)-CFDA #97.040; Disaster & Emergency Assistance Grant-Salary-CFDA # 97.042; Assistance To Fighters Grant CFDA # 97.044 and Blue Grass PRIDE-Household Hazardous Waste CFDA # 11.469
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. Madison County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Reference Number 2004 -1: The county failed to require all banks to provide sufficient collateral to protect deposits of public funds and also failed to enter into a written agreement with all bank to ensure the county's interest in the collateral pledged or provided by the depository institutions. This finding has been partially corrected. The county has entered into a written agreement with all banks but some deposits were still uninsured and unsecured.

Reference Number 2004 – 2: The general fund budget was overspent due to failure to prepare a budget amendment. This finding has been corrected as all expenditures were within amounts budgeted.

**MADISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Other Supplementary Information

MADISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2005

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>
U.S. Department of Homeland Security		
Weapons of Mass Distruction - 2003 Pt II	97.004	\$ 2,357
Chemical Stockpile Emergency Preparedness Program	97.040	1,961,225 *
Disaster & Emergency Assistance Grant - Salary	97.042	13,252 *
Assistance to Firefighter Grant (FEMA Fire Grant)	97.044	111,400 *
Total U.S. Department of Homeland Security		<u>2,088,234</u>
U.S. Department of Commerce		
<i>Passed through N.O.A.A</i>		
Bluegrass PRIDE - Household Hazardous Waste	11.469	3,547 *
U.S. Department of Agriculture		
In-Kind Food Commodities Program (Jail)	10.550	<u>4,523</u>
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 2,096,304</u></u>

*Tested as Major Program **

MADISON COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Madison County Fiscal Court and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

The Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table contents and have issued our report thereon dated December 22, 2005. Madison County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison County's financial statements as of June 30, 2005, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company PLLC

Audit fieldwork completed-
December 22, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
Telephone (502) 499-9088
Facsimile (502) 499-9132

The Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

**Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Madison County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Madison County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison County's management. Our responsibility is to express an opinion on Madison County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madison County's compliance with those requirements.

In our opinion, Madison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Madison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

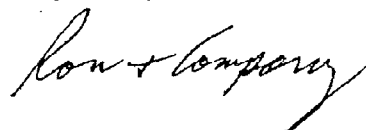
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit Fieldwork Completed -
December 22, 2005

APPENDIX A

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MADISON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2005

Appendix A

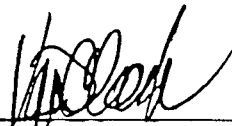
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MADISON COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2005

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge Executive



Name

County Treasurer